

Message Text

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ACTION ARA-10

INFO OCT-01 IO-10 ISO-00 EB-07 SCA-01 CU-02 CPR-01 AID-05

CIAE-00 DODE-00 PM-03 H-01 INR-07 L-02 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 SR-02 ORM-01 VO-03

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R 251652Z FEB 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 2300

INFO USMISSION USUN NEW YORK

USMISSION GENEVA

C O N F I D E N T I A L SANTIAGO 1199

EO 11652: GDS

TAGS: CI, PINT, PFOR, SHUM, CVSIS

SUBJECT: GOC EXIT TAX

1. SUMMARY: NEW GOC EXIT TAX, EFFECTIVE MARCH 1, IS SET AT UNPRECEDENTLY HIGH RATES AND, DESPITE MULTIPLE GROUNDS FOR EXEMPTION, SHOULD HAVE INHIBITING EFFECT ON INTERNATIONAL TRAVEL OF CHILEANS. MOREOVER, FOR FIRST TIME TAX CONTAINS AN INDEXING MECHANISM WHICH WILL KEEP IT HIGH EVEN WITH RAPID INFLATION. WHILE GOC'S MOTIVATION IS ECONOMIC, TAX WILL TEND TO ERODE POLITICAL SUPPORT FROM TRAVEL-ADDICTED CHILEAN MIDDLE CLASS STILL HAUNTED BY ALLENDE-ERA SPECTER THAT SOMEHOW "BORDER WOULD BE CLOSED." IF RESTRICTIVELY APPLIED, MEASURE COULD BE CONSTRUED BY GOC CRITICS AS ENTAILING IMPAIRMENT OF RIGHT TO LEAVE AND RETURN TO COUNTRY, THEREBY INCREASING GOC'S HUMAN RIGHTS DIFFICULTIES. MEASURE SHOULD REDUCE VOLUME OF NIV APPLICATIONS TO US, BUT MAY INCREASE OUR FRAUD AND PUBLIC RELATIONS PROBLEMS. END SUMMARY.

2. DECREE LAW 896, DATED FEB 17, 1975, AND PUBLISHED IN DIARIO OFICIAL FEB 22, ESTABLISHES AN EXIT TAX EFFECTIVE MARCH 1 ON ALL CHILEANS AND FOREIGNERS RESIDENT IN CHILE FOR
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MORE THAN ONE YEAR. AMOUNT IS EQUIVALENT TO "14 MONTHLY TAX

UNITS"; VALUE OF "TAX UNIT" IN MARCH IS ES. 49,000, SO AMOUNT OF EXIT TAX IS ES. 686,000 (APPROXIMATELY US\$236 AT CURRENT EFFECTIVE BROKERS EXCHANGE RATE). EXIT TAX IS REDUCED TO THREE "TAX UNITS" (ES. 147,000 - US\$ 50) FOR TRAVELERS GOING TO LATIN AMERICAN COUNTRIES INCLUDING CURACAO, JAMAICA, PUERTO RICO, AND BAHAMAS. TRAVELERS TO ARGENTINA, BOLIVIA, AND PERU, ALL OF WHICH HAVE COMMON LAND BORDERS WITH CHILE WILL PAY NO TAX.

3. FOLLOWING CATEGORIES ARE EXEMPT FROM TAX:

A. MEMBERS OF DIPLOMATIC MISSIONS AND CAREER CONSULAR OFFICIALS AND THEIR FAMILIES, AS WELL AS CHILEAN DIPLOMATIC OR CONSULAR OFFICIALS ASSIGNED ABROAD.

B. MEMBERS OF OFFICIAL INTERNATIONAL AGENCIES AND THEIR FAMILIES.

C. HOLDERS OF FOREIGN SCHOLARSHIPS APPROVED BY GOC TECHNICAL COOPERATION AND SCIENTIFIC COMMISSION (CONICYT).

D. PARTICIPANTS IN INTERNATIONAL SCIENTIFIC, CULTURAL, OR ARTISTIC CONGRESSES OR INTERNATIONAL SPORTING EVENTS.

E. DULY ACCREDITED NEWSMEN.

F. STUDENTS GOING ABROAD UNDER SPONSORSHIP OF MINISTRY OF EDUCATION OR OF THEIR UNIVERSITY.

G. WORKERS GOING ABROAD TO REPRESENT THEIR ORGANIZATIONS, UPON PRIOR APPROVAL OF MINISTRY OF LABOR.

H. MINORS LESS THAN TWO YEARS OLD.

I. GOVT. EMPLOYEES ON OFFICIAL BUSINESS.

J. EMPLOYEES OF AIR, MARITIME, OR LAND TRANSPORTATION COMPANIES.

K. IMMIGRANTS WHO ARE ABLE TO RETURN TO CHILE (I.E. THOSE WHO HAVE NOT BEEN EXPELLED BY GOC).

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L. MINISTERS OF RELIGION OR MEMBERS OF RELIGIOUS ORDERS.

M. PERSONS OF LIMITED RESOURCES WHO MUST GO ABROAD FOR MEDICAL OR OTHER EMERGENCY REASONS, TO BE DETERMINED ON CASE BY CASE BASIS BY INTERNAL REVENUE SERVICE.

N. PERFORMING ARTISTS, WRITERS, COMPOSERS, AND THEIR LIKE

TRAVELING ABROAD TO WORK IN THEIR SPECIALTY, UPON REQUEST BY THEIR PROFESSIONAL ORGANIZATION.

3. TAX WILL BE COLLECTED BY TRAVEL AGENCIES AND TRANSPORTATION COMPANIES AT TIME TICKETS ARE SOLD. PERSONS WHO TRAVEL ORIGINALLY TO LOWER TAX AREA (I.E. LATIN AMERICA) OR TAX-EMPT AREA (I.E. NEIGHBORING COUNTRIES) AND SUBSEQUENTLY PROCEED TO OTHER AREAS (E.G. US) MUST PAY FULL AMOUNT ONCE THEY RETURN TO CHILE; TRAVELER MUST OBTAIN CERTIFICATE FROM CHILEAN EMBASSY OR CONSULATE ABROAD EXPLAINING WHY SUBSEQUENT TRIP WAS NECESSARY IN ORDER TO BE EXEMPT FROM "FINES OR CRIMINAL PENALTIES. THERE IS NO INDICATION THAT DETAINEES BEING EXPELLED FROM CHILE WILL BE EXEMPT FROM TAX.

4. COMMENT: THIS IS FIRST TIME THAT THE LONG-STANDING CHILEAN EXIT TAX HAS BEEN RAISED TO SUCH HIGH LEVELS, AND THE FIRST TIME IT HAS BEEN TIED TO AN INDEXING MECHANISM RATHER THAN A FLAT RATE. IN OTHER WORDS, THE TAX WILL RISE AS COST OF LIVING INDEX RISES, SO TAX WILL STAY HIGH IN REAL TERMS.

5. DECREE LAW WAS ISSUED UNDER AUSPICES OF MINISTER OF FINANCE, AND THERE IS NO REASON TO BELIEVE THAT GOC'S PRINCIPAL MOTIVATION FOR ISSUING IT IS NOT ECONOMIC, BOTH TO SAVE FOREIGN EXCHANGE AND TO RAISE REVENUE. EARLIER, AMOUNT OF FOREIGN EXCHANGE AVAILABLE TO TRAVELERS WAS DRASTICALLY REDUCED (SANTIAGO 641). SUCH POLITICAL CONSIDERATIONS AS STEMMING EXODUS OF SKILLED MANPOWER OR PROVIDING CLOSER GOVT CONTROL OVER TRAVELERS ARE PROBABLY SECONDARY. SAME ECONOMIC EFFECT OF MAKING FOREIGN TRAVEL MORE EXPENSIVE COULD HAVE BEEN ACHIEVED BY ADDITIONAL DEVALUATION OF TRAVELERS (BROKERS) EXCHANGE RATE. IN CHILEAN POLITICAL TERMS, THIS WOULD HAVE BEEN PREFERABLE.

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6. EXIT TAX MAY HAVE ADVERSE DOMESTIC POLITICAL CONSEQUENCES FOR GOC. CHILEAN MIDDLE CLASS, A BASTION OF SUPPORT FOR JUNTA, IS ADDICTED TO INTERNATIONAL TRAVEL AND WILL STRONGLY RESENT GOVT MEASURES TO RESTRICT THIS "RIGHT". DURING ALLENDE ERA, ONE OF MOST VOCAL MIDDLE-CLASS FEARS WAS THAT ALLENDE WOULD SOMEHOW "CLOSE THE BORDERS". HE NEVER DID, ALTHOUGH THERE WERE SOME MEASURES WHICH TENDED IN THIS DIRECTION. NOW, HOWEVER, IT IS LIKELY THAT MANY CHILEANS WILL VIEW HIGH (IN CHILEAN TERMS) EXIT TAX AS ACHIEVING WHAT THEY FEARED ALLENDE WOULD DO -- SEVERELY RESTRICTING ALTHOUGH NOT PROHIBITING INTERNATIONAL TRAVEL OUTRIGHT, THROUGH GUISE OF ECONOMIC MEASURES. WHATEVER GOC'S MOTIVATION FOR IMPOSING TAX, AMOUNT IS HIGHEST WE KNOW OF IN WESTERN HEMISPHERE, AND ISSUE IS LIKELY TO BE USED BY GOC HUMAN RIGHTS CRITICS TO TARNISH FURTHER ITS INTERNATIONAL IMAGE.

7. POSSIBLY MEASURE WILL RELIEVE OUR PRESENTLY SORELY
STRAINED VISA OPERATIONS. THOSE APPLICANTS SUBJECT TO TAX
WHO DO APPLY FOR NIV'S WILL PROBABLY BE FINANCIALLY MORE
AFFLUENT CASES, SO THAT OUR REFUSAL RATE SHOULD DROP. HOWEVER,
BECAUSE OF DIFFERENTIAL TAX RATES, WE ANTICIPATE INCREASED
NUMBER OF NIV APPLICANTS WHO WILL SAY THEY ARE GOING TO
PUERTO RICO. SINCE MOST APPLICANTS WILL HAVE PAID TAX PRIOR
TO INTERVIEW FOR U.S. VISAS, WE CAN EXPECT A GREATER THAN
NORMAL PUBLIC RELATIONS PROBLEM FROM THOSE APPLICANTS WE DO
REFUSE, SINCE IT WILL BE EXTREMELY DIFFICULT FOR APPLICANT
TO RECOVER TAX MONEY ONCE PAID.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LAW, TOURISM, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 25 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANTIA01199
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750066-0927
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750215/aaaaamth.tel
Line Count: 182
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 19 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: WITHDRAWN <10 Jun 2003 by MorefiRH, INA>; RELEASED <19 JUN 2003 by MorefiRH>; APPROVED <19 JUN 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOC EXIT TAX
TAGS: PINT, PFOR, SHUM, CVIS, CI
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006